

# CALIFORNIA SCHOOL FINANCE AUTHORITY

## Meeting of the Board

Wednesday, December 12, 2012  
9:00 a.m.

915 Capitol Mall, Room 587  
Sacramento, California 95814

Deputy State Treasurer Patricia Wynne, serving as Chair, called the meeting to order.

### Roll Call

Members Present: Patricia Wynne, designee for Bill Lockyer, State Treasurer  
Pedro Reyes, designee for Ana J. Matosantos, Director of Finance  
Kathleen Moore, designee for Tom Torlakson, Superintendent of Public  
Instruction

Staff Present: Katrina Johantgen, Executive Director  
Terri Kizer, Program Analyst  
Steven Theuring, Program Analyst

The Chair declared a quorum present.

### Approval of Minutes

The minutes for the November 27, 2012 Authority board meeting were approved as submitted.

### Executive Director's Report

Conduit Bond Program: Mr. Steven Theuring informed the members that staff is working closely with the Public Finance Division to confirm all outstanding bond balances for purposes of an annual state audit.

Charter School Facilities Program (CSFP): Ms. Johantgen advised that staff will begin working closely with the California State Controller's Office and the California Department of Education (CDE) to ensure all CSFP payments will commence in 2013. This task also will include working with the schools to develop a payment schedule that allows the school to operate and meet its cash flow needs while ensuring that CSFP payments are made in a timely manner.

State Charter School Facilities Incentive Grant: Ms. Johantgen informed the members that, the proposed regulatory changes approved at the November board meeting have been submitted to the Office of Administrative Law and are scheduled to be distributed for a 45-day public comment period shortly.

Charter School Facilities Credit Enhancement Grants Program: Ms. Johantgen informed the members that proposed changes to the regulations will be presented to the members either in the January or February.

Resolution No. 12-45 – Delegating Certain Powers and Authorizing Certain Actions Related to Bond Financings

Ms. Johantgen explained to the members that this delegation resolution is renewed annually and that staff worked closely with Legal Counsel to ensure the changes to this year's delegation resolution are in line with the other Boards, Authorities, and Commissions within the Treasurer's Office. This delegation resolution is set to expire on January 31, 2015. Ms. Wynne noted that the Executive Director is required to report on a quarterly basis on every action taken under this delegation authority.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-45, delegating certain powers and authorizing certain actions related to bond financings.

Resolution 12-46 – Approving the Allocation of Qualified School Construction Bond (QSCB) Borrowing Authority to Alliance College-Ready Public Schools in an Amount Not to Exceed \$10,500,000 under the Charter School QSCB Program and Authorizing the Taking of Necessary Actions in Connection Therewith

Ms. Johantgen informed the members that this application on behalf of Alliance for College-Ready Public Schools is for a re-allocation of the QSCB Borrowing Authority adopted by the members on May 30, 2012 for another project. Due to some legal constraints, Alliance for College-Ready Public Schools is requesting to move the allocation to another qualifying project. Ms. Johantgen explained that there were no formal QSCB applications in house that this allocation would be in competition with and therefore this re-allocation did not bump any other projects out of consideration. She added that this project meets all program eligibility.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-46, approving the allocation of Qualified School Construction Bond (QSCB) Borrowing Authority to Alliance for College-Ready Public Schools in an amount not to exceed \$10,500,000 under the Charter School QSCB Program and authorizing the taking of necessary actions in connection therewith.

Resolution 12-47 – Approving a Financially Sound Determination for the Charter School Facilities Program for Advance/Final Apportionment for Lou Dantzler Preparatory Charter Middle School Located in Los Angeles County, California

Ms. Johantgen briefly discussed Inner City Education Foundation (ICEF) and Lou Dantzler Preparatory Charter Middle School's prior request for an advance apportionment under the Charter School Facilities Program (CSFP) in April 2012; however, it was determined at that time that the school did not meet all the requirements needed to be found financially sound.

Ms. Johantgen presented Mr. Parker Hudnut who spoke on behalf of ICEF and Lou Dantzler Preparatory Charter Middle School. Mr. Hudnut highlighted ICEF's long history of serving students in South Los Angeles and described to the members the changes that ICEF has gone through since their reorganization began. The school has exceeded their projected revenue for 2011-12 and they continue to be conservative on their estimates for future years. New leadership is in place at ICEF and a number of ICEF schools, including Lou Dantzler Preparatory Charter Middle School. The school continues to improve on building relationships with the community and has integrated programs to help improve student performance. Mr. Hudnut addressed a concern of the members regarding ICEF's board

members and explained the new direction the school is taking is not just financially but academically as well.

Ms. Johantgen advised the members that based on current financial data provided by ICEF, they are meeting all eligibility criteria such as meeting projected debt service coverage ratios, having a charter in place and being in good standing with the charter authorizer. Additionally, all of ICEF's disclosed legal matters have been reviewed by Legal Counsel and deemed not to impact ICEF's financial soundness. Ms. Johantgen recommended the members find Lou Dantzler Preparatory Charter Middle School to be financially sound for purposes of an advance apportionment. ICEF's student performance and other indicators will be monitored closely by staff between this review and ICEF's request for final apportionment.

Ms. Johantgen informed the members that the school will be required to enter into a Memorandum of Understanding, Funding Agreement, and Facility Use Agreement prior to receiving any funds. The school will be obligated to begin payments to the State once the CSFP-funded facility is in use for one full academic year.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-47, finding Lou Dantzler Preparatory Charter Middle School is financially sound for purposes of an advance apportionment.

Resolution 12-48 – Approving the Charter School Facilities Credit Enhancement Grant Program (CFDA #84.354A) Award in an Amount Not to Exceed \$870,000 to High Tech Elementary North County located in San Diego County, California

Ms. Johantgen informed the members this is the second award under the Charter School Facilities Credit Enhancement Grant Program for the High Tech High organization. Ms. Johantgen explained the information provided on the checklist as it is now broken into eligibility criteria and evaluation criteria. Although High Tech Elementary North County is a new school and does not meet the criteria for 50% Free and Reduced Price Meals (FRPMs), the average across all schools in the program meets the criteria. Ms. Johantgen confirmed the school a leverage ratio of 20:1 which exceeds the Program requirement of an 8:1 ratio. This will increase the average leverage ratio across the Program and allow some schools with slightly lower leverages the opportunity to apply. Staff recommended the members approve the award of \$870,000 to High Tech Elementary North County under the Charter School Facilities Credit Enhancement Grant Program.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-48, approving an award under the Charter School Facilities Credit Enhancement Grant Program in an amount not to exceed \$870,000 to High Tech Elementary North County.

Resolution 12-49 – Approving the Charter School Facilities Credit Enhancement Grant Program (CFDA #84.354A) Award in an Amount Not to Exceed \$660,000 to Alliance Public Schools located in Los Angeles, California

This item was held over until a future meeting.

Resolution No. 12-50 – Authorizing the Issuance from Time To Time of Notes in an Aggregate Amount Not To Exceed \$6,613,000 to Finance Working Capital Loans to Certain Charter Schools In Maximum Loan Amounts Indicated on Exhibit A, and Approving

the Form of a Note Purchase Agreement, Loan Agreements and an Indenture. Therefor, and Authorizing Certain Other Actions in Connection Therewith

Ms. Johantgen introduced Mr. Mike Kremer, First South West, and Mr. Steven Field, Citibank, who spoke on behalf of the issuance notes for the schools listed below. Mr. Kremer informed the members that they are planning to process seven loans to seven different schools through the Citi Financing Capital Program Series 2012D in an amount of \$5.5 million. At present all schools have approved loan documents and expect to close by December 20, 2012.

The Borrowers are one or more of the following charter schools under the Charter School Law: Casa Ramona Academy for Technology, Community, and Education; Los Angeles International Charter High School; NOVA Academy; NOVA Academy – Coachella; REALM Charter High; REALM Charter Middle; and TEAM Charter.

Mr. Field informed the members that for Series 2012D, Citibank has lowered the interest rate to 4% and the fees associated by a third. Ms. Wynne and Mr. Reyes commended Citi on its decision to lower the cost associated with the Program and making it more competitive.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-50 – authorizing the issuance from notes in an aggregate amount not to exceed \$6,613,000 to finance working capital loans to certain charter schools as listed in maximum loan amounts indicated as listed.

Resolution No. 12-51 – Authorizing the Issuance of Bonds in an Amount Not to Exceed \$15,000,000 to Finance the Acquisition and Renovation of Educational Facilities located in Los Angeles, California

Ms. Johantgen introduced Mr. Bill Wildman, RBC Capital Markets, and Mr. Eugene Clark-Herrera, Orrick, Herrington & Sutcliffe LLP., who provided an update to the members on the status of the acquisition and credit rating for VSF School Facilities on behalf of Value Schools.

Mr. Wildman informed the members that this is the first entry by VSF into the bond market. Mr. Wildman briefly explained VSF is currently in negotiations with the seller and hopes to come to an agreement prior to the end of the year. Mr. Wildman explained that when they went to the credit rating agency for a credit assessment, the school was given a preliminary rating of BB+ (non-investment grade) due to the fact they do not have a purchase price or contract, and others issues related to the credit. Mr. Wildman informed the members that they anticipated securing the final rating by the end of January 2013, pricing the bond in February 2013, and selling the bonds by March 2013. Ms. Johantgen mentioned to the members that Section 4 of the resolution was in place in anticipation of non-investment grade rating and the placement of the intercept mechanism.

Mr. Clark-Herrera informed the members the forms of legal documents presented to the Board contain all the provisions that might apply to the sale of the bonds, no matter what the final investment grade rating. Mr. Clark-Herrera explained there is only a minor difference on the cost of issuance between an investment and non-investment grade rated transaction which will be reflected in the interest rate and an increase in takedown and management fee. An interest rate of 6.5% was assumed for the current analysis.

Ms. Johantgen noted that staff worked closely with the Public Finance Division, State Treasurer's Office, evaluating and reviewing all issues associated with the proposed cost of issuance, takedowns and management fees.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-51, authorizing the issuance of bonds in an amount not to exceed \$15,000,000 to finance the acquisition and renovation of educational facilities for VSF School Facilities #1, located in Los Angeles, California.

Resolution No. 12-52 – Authorizing the Issuance of Bonds in an Amount Not to Exceed \$16,000,000 to Finance the Acquisition, Construction and Renovation of Educational Facilities located in Oceanside, California

Mr. John Snider, Managing Director, RBC Capital Markets, and Mr. Cameron Curry, Executive Director, Coastal Academy, gave a brief history of Coastal Academy and its accomplishments. Mr. Curry also informed the members that Coastal Academy has just secured a five-year charter renewal with the Oceanside Unified School District.

Mr. Snider informed the members the bonds issued will fund a new campus located a few blocks from the current leased site. The school is serving at capacity and this acquisition will allow Coastal Academy to expand and serve more students. The current plan is to market the bonds in the middle of January 2013, close by end of January 2013, and for construction to begin by February 2013. They anticipate finishing and using the new facility by February 2014. Mr. Snider explained that they currently do not have a rating set for the school but expected to receive a BBB-. Mr. Snider also explained the primary source of repayment for the bonds will be the unrestricted revenue of the school, primarily the per-pupil revenue either from the State or property tax apportioned to the schools. Mr. Snider added that the property also is pledged as security for bondholders.

Ms. Johantgen highlighted that this financing marks the first time the Authority is issuing bonds for a school that does not meet the definition of a site-based school. Mr. Curry explained that Coastal Academy offers their students options to attend classes 2, 3, 4 and 5 times a week. This allows the school to maximize the capacity by offering services to different sets of students at different times.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-52 – authorizing the issuance of bonds in an amount not to exceed \$16,000,000 to finance the acquisition, construction and renovation of educational facilities for Coastal Academy, located in Oceanside, California.

Resolution No. 12-53 – Authorizing the Issuance of Bonds in an Amount Not to Exceed \$11,753,325 to Finance the Acquisition, Construction and Renovation of Educational Facilities located in San Marcos, California

Ms. Johantgen briefed the members of the previous QSCB award to High Tech High. The school came in for the remaining available funds for a QSCB bond and is expected to close on March 2013. Ms. Johantgen informed the members that High Tech High has met the December 31, 2012 deadline to return to the Board for bond issuance.

Mr. Eugene Clark-Herrera explained to the members that High Tech High will start the rating process once the purchase contract is executed, which they anticipate will occur within the

next 7-10 days. Mr. Clark-Herrera provided a brief background of High Tech High and the project that will be funded by the QSCB award. Mr. Clark-Herrera informed the members that the borrower for this transaction is not just for an individual campus but the whole High Tech High organization and they are confident that they will receive an investment grade rating. If they do not achieve the expected rating, they will bring it back to the Authority members with a letter of credit in place as credit enhancement. Mr. Clark-Herrera highlighted the large amount of equity available to pledge to the transaction.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-53 – authorizing the issuance of bonds in an amount not to exceed \$11,753,325 to finance the acquisition, construction, and renovation of educational facilities for High Tech High Elementary North County, located in San Marco, California.

There being no additional public comments or other business to conduct, the meeting was adjourned.

Respectfully submitted,

Katrina Johantgen  
Executive Director